CANADIAN HIDROGAS RESOURCES LTD.

1970

ANNUAL REPORT

CANADIAN HIDROGAS RESOURCES LTD. (N.P.L.)

DIRECTORS

Evan W. G. Bodrug - Calgary
Arthur F. Coady - Calgary
Jack A. Gilbert - Toronto
Benjamin J. McConnell — Vancouver

OFFICERS

Evan W. G. Bodrug - President
Arthur F. Coady - Secretary
M. Lawrence Steer - Treasurer

HEAD OFFICE
#2972 - One Calgary Place
330 - 5th. Avenue S.W.
CALGARY 1, ALBERTA.

TRANSFER AGENTS
National Trust Company Limited - Calgary - Vancouver

AUDITORS
Deloitte, Plender, Haskins & Sells - Calgary

STOCK LISTED
Calgary Stock Exchange

1970 ANNUAL REPORT

HIGHLIGHTS

FINANCIAL	1970*	1969
Gross Sales of Oil and Gas Liquids	$2,963,142	$1,565,040
Gross Profit	158,218	101,429
Income from Operations	52,339	26,732
Total Consolidated Income before Write-offs and Other Charges	65,762	28,697

OPERATING		
Gross Acreage in Areas of Interest	102,640	3,920
Wells Drilled in Areas of Interest	6	1
Average Equivalent Barrels per day Marketed	3,600	1,700

* *Represents Nine Months operation for Propane and Butane Marketing.*

Report of the President

TO THE SHAREHOLDERS:

Your company during the past year has shown excellent progress. The consolidated operating income for the current fiscal year was twice the operating income for the previous year. This is considered an outstanding achievement because it must be pointed out that this was achieved during a nine month period of operation for the subsidiary company, Hidrogas Limited. During the year, Hidrogas Limited obtained permission from the Director of Taxation to change its year end to coincide with the year end of the Parent Company. This means that the operational year was shortened by three months and thus the records only represent nine months of actual operation for Hidrogas Limited. In spite of this nine month year, the business volume was one and one half times that of the previous year. During the year, eight jumbo size tank cars were purchased by our company. To date we have ninety of these tank cars in our fleet including the cars on long term lease. This will assure that the Company will have adequate transportation to serve the wholesaling operation of propanes and butanes. The future business under contract will assure an even better earnings position in 1971.

This year has also been highlighted by the company taking an interest in several gas properties in the state of Montana and southern Alberta. The company participated in the drilling of two gas wells, one oil well, and three dry holes. Prospects for gas production look favorable and in both gas wells, plans are being drawn up for further developments. Gas marketing arrangements are being made and when completed further drilling is anticipated. Both of these gas developments promise a substantial future contribution to the Company.

Oil production from the Black Butte field, was temporarily halted at the time the export quota to the U.S.A. was imposed.

However, a market has since been established and production resumed late in the year. Your company has made an offer to the major working interest owner for its interest and if this offer is accepted, it is the plan of the company to pursue the development drilling so that the field can be defined and maximum production obtained.

Your company continues to pursue the other areas of involvement. The storage project at Regina, has been re-evaluated in the light of the most recent information on propane and butane production, transportation and markets. The Canadian Pacific Railway is assisting us in this study. It is preparing a computer model of all propane and butane movements, and the storage project at Regina will be a part of the model. In this way, a computer analysis will prove the economics of the project.

After additional investigation of the mining claims in Northern B.C., it has been decided to abandon these claims. From information gathered from surrounding territory, it appears that a mining operation could not be conducted on economic terms. It was, therefore, thought advisable not to spend further funds in this area. There are approximately 651,000 shares held in escrow pending the final disposition of the claims under the jurisdiction of the British Columbia Security Commission. A condition of the escrow agreement is that should the claims be abandoned or lost, the Superintendent of Brokers may require that these shares be gifted back to the treasury. Your directors have passed a resolution requesting the Superintendent to require that these shares be delivered back to the company treasury. When this is completed these shares will be cancelled, reducing the issued shares by that number.

Your company has applied to the Registrar of Companies for a change of status from a Specially Limited Company to a Limited Company. This change will allow the company to undertake guarantees on debt capital for future projects and developments that are under consideration. This Shareholders Resolution will be voted on at the Annual Meeting.

We wish to assure the shareholders of our continued effort to further build a thriving and growing company.

Respectfully submitted,
On Behalf of the
Board of Directors

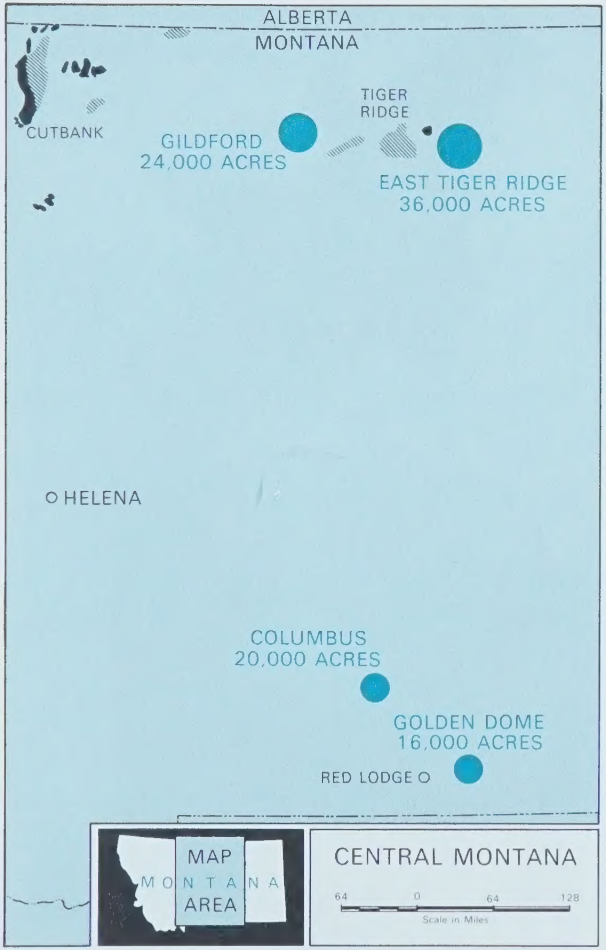
Evan Bodrug

EVAN BODRUG, President

ALBERTA

The areas of interest in Alberta are the Black Butte, Aden, and Princess areas. In the Black Butte area there are 3,600 acres on which are two completed oil wells. Production is about 600 barrels per month and expected to substantially increase with further field development. Your company presently holds a twenty-five per cent working interest in this field. We are hopeful that negotiations with the major interest holder will permit the company to take over the operations and develop the field. In the Aden field your company holds a fifty per cent working interest in 640 acres on which there is one producing gas well. The production is being sold to Canadian Montana Gas.

In the Princess field your company holds a twenty-five per cent working interest in 7,800 acres on which one well has been drilled and completed in the Milk River formation. A forty-four well program is planned for 1971.



MONTANA

The areas of interest in Montana are the Gilford area consisting of 24,000 acres, the Columbus area consisting of 20,000 acres and the Golden Dome area consisting of 16,000 acres. Your company holds a one half of one per cent gross overriding royalty on all of the above fields. One gas well has been drilled on the Golden Dome acreage and the operator has estimated reserves in excess of 100 billion cubic feet based on well log information in adjacent wells.

The Gilford area occurs in the Bearpaw Arch area as shown on the Regional Geology Map. The lands are located in an area of numerous Eagle formation gas shows and has geology similar to the Tiger Ridge field. A five well Eagle test program is planned.

The Columbus area consists of a potential gas bearing area from the Judith River and Eagle Sands. These sands are low porosity and are susceptible to water damage. Air drilling is planned to evaluate this field.

Your company also holds a five per cent working interest in the East Tiger Ridge area consisting of 36,000 acres. Two wells have been drilled to date on this acreage. The sands were present but a water condition existed in both wells. They were therefore, abandoned.

PROPANE AND BUTANE MARKETING

The supply of propane and butane in Alberta continues to increase at substantial rates and is expected to continue this trend for some time. Your company's marketing volumes are expected to grow at even greater rates as increased penetration into the market occurs. The number of customers being served by your company continues to grow; they number in excess of 100. The map of North America illustrates where each customer is located, the number, and the wide continental distribution of the marketing area. This wide distribution aids in the stability of the marketing operations where influences in any one locale do not significantly influence the overall marketing picture.

Customer points where Canadian Hidrogas markets

In order to serve these distant areas, it is necessary to have a large fleet of jumbo size tank cars. The photo on the right is the first car purchased by your company; the C.H.R. in the tank car number designates Canadian Hidrogas Resources as the owner. Your company owns and has under long-term lease a total of ninety similar tank cars.

AUDITORS' REPORT

To the Shareholders of
Canadian Hidrogas Resources Ltd. (N.P.L.)

We have examined the consolidated balance sheet of Canadian Hidrogas Resources Ltd. (N.P.L.) and its subsidiary as at August 31, 1970 and the consolidated statements of loss and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1970 and the results of their operations and source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the matters referred to in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

We were not appointed auditors until after November 30, 1969 and as such, comparative consolidated figures for the year then ended have been reported on by the previous auditors and have been restated as explained in Note 1.

DELOITTE, PLENDER, HASKINS & SELLS
November 6, 1970 Chartered Accountants

CANADIAN HIDROGAS RESOURCES LTD. (N.P.L.) (Incorporated under The Companies Act, British Columbia)

Consolidated Balance Sheet as at August 31, 1970 (with November 30, 1969 figures for comparison)

ASSETS	1970*	1969
CURRENT ASSETS:		
Cash	$ 15	$ 770
Accounts receivable — trade	607,957	346,116
— officers and employees	1,773	—
Inventory — at the lower of cost or net realizable value	524,535	17,543
Prepaid expenses and deposits	7,779	5,544
Total current assets	1,142,059	369,973
INVESTMENTS — at cost	500	500
INVESTMENT IN AND ADVANCES TO AFFILIATED AND UNCONSOLIDATED SUBSIDIARY COMPANIES (Notes 2 and 3)	4,677	46,505
MINERAL CLAIMS — at nominal value (1969 at cost) (Note 4)	1	748,065
GAS, OIL AND ROYALTY INTERESTS — at cost (Note 5)	49,497	8,890
Less accumulated depletion	9,792	—
Net gas oil and royalty interests	39,705	8,890
DEFERRED EXPLORATION AND ADMINISTRATION EXPENSES (Note 6)	—	77,192
EQUIPMENT — at cost (Note 7)	206,948	2,972
Less accumulated depreciation	10,199	1,400
Net equipment	196,749	1,572
OTHER — at cost:		
Deposits on rental of tank cars	5,255	5,255
Incorporation costs	1,781	1,781
Excess cost of shares acquired over net assets of subsidiary (Note 1)	252,771	252,771
Preliminary engineering work on construction of gas plant and storage facilities (Note 8)	—	51,789
Total other assets	259,807	311,596
TOTAL	$1,643,498	$1,564,293

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
CURRENT LIABILITIES:		
Bank indebtedness - secured	$ 80,000	$ 137,979
Accounts payable and accrued charges	967,943	283,498
Current portion of long-term debt	16,519	—
Deposits on sales	103,603	—
Total current liabilities	1,168,065	421,477
LONG-TERM DEBT:		
12% Note payable - repayable at $2,800 per month including interest, less included in current liabilities	161,722	—
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
5,000,000 common shares with a par value of $1 each		
Issued and fully paid (Notes 4 and 9):		
2,991,002 shares	1,164,847	1,164,847
Deficit (Note 1)	(851,136)	(22,031)
Net shareholders' equity	313,711	1,142,816
TOTAL	$1,643,498	$1 564,293

Approved by the Board:

EVAN W. G. BODRUG, Director

ARTHUR F. COADY, Director

Consolidated Statement of Loss and Deficit for the Year Ended August 31, 1970

(with November 30, 1969 figures for comparison)

	1970	1969
SALES	$2,963,142	$1,565,040
COST OF GOODS SOLD	2,804,924	1,463,611
GROSS PROFIT	158,218	101,429
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	105,879	74,697
INCOME FROM OPERATIONS	52,339	26,732
OTHER INCOME		
Tank car rental	6,421	1,835
Gain on disposal of equipment	5,000	—
Interest and miscellaneous	2,002	130
Total other income	13,423	1,965
	65,762	28,697
OTHER CHARGES		
Exploration and development costs on abandoned properties	16,573	—
Mineral claim fees	1,800	—
Mineral claims abandoned (Note 4)	748,064	—
Deferred expenses written off (Note 6)	65,017	30,000
Loss on exchange revaluation	7,140	—
Engineering studies (Note 8)	56,273	—
Total other charges	894,867	30,000
NET LOSS FOR THE YEAR	829,105	1,303
ADD		
Net income of subsidiary prior to acquisition (Note 1)	—	20,728
DEFICIT AT BEGINNING OF THE YEAR	22,031	—
DEFICIT AT END OF THE YEAR	$ 851,136	$ 22,031

The accompanying notes are an integral part of the financial statements.

CANADIAN HIDROGAS RESOURCES LTD. (N.P.L.)

Consolidated Statement of Source and Application of Funds for the Year Ended August 31, 1970 (with November 30, 1969 figures for comparison)

	1970	1969
FUNDS PROVIDED:		
Net loss for the year	$ (829,105)	$ (1,303)
Items not affecting cash outlay:		
Mineral claims abandoned	748,064	—
Deferred expenses written off	65,017	30,000
Depletion of producing properties — prior year	5,744	—
— current year	4,048	—
Depreciation	8,798	393
Preliminary engineering study costs written off	56,273	—
Gain on disposal of equipment	(5,000)	—
	882,944	30,393
Total funds provided from operations	53,839	29,090
Note payable	161,722	—
Sale of equipment	28,525	—
Reduction in advances to affiliated and subsidiary companies	41,828	—
Issue of shares	—	11,250
Total funds provided	285,914	40,340
FUNDS APPLIED:		
Additions to equipment	227,501	265
Additions to gas, oil and royalty interests	28,431	—
Preliminary engineering work on construction of gas plant and underground storage facilities	4,484	47,320
Additions to deferred expenses	—	8,935
Total funds applied	260,416	56,520
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	25,498	(16,180)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR	51,504	35,324
WORKING CAPITAL DEFICIENCY AT END OF THE YEAR	$ 26,006	$ 51,504

The accompanying notes are an integral part of the financial statements.

CANADIAN HIDROGAS RESOURCES LTD. (N.P.L.)

Notes To The Consolidated Financial Statements August 31, 1970

1. COMPARATIVE FIGURES AND CHANGE IN ACCOUNTING POLICY:

Financial statements for the year ended November 30, 1969 reflected the operations of the wholly-owned subsidiary after acquisition as adjustments of excess cost of shares acquired over net assets of subsidiary. The results of these operations are now included in the Consolidated Statement of Loss and Deficit and comparative figures for the year ended November 30, 1969 have been restated to give effect to this change in the Company's accounting policy. Accordingly, the subsidiary's loss on operations since acquisition of $22,031 has been reflected in the previous year's statement of loss and deficit.

2. PRINCIPLES OF CONSOLIDATION:

These financial statements include the accounts of the parent company and those of its wholly-owned subsidiary, Hidrogas Limited, for the nine months ended August 31, 1970. The accounts of the wholly-owned inactive subsidiary, Hidrogas Inc., are not included in the accompanying financial statements. The investment in this subsidiary is carried at cost and there has been no provision made in the accounts for the subsidiary's accumulated deficit, at April 30, 1970, in the amount of $1,412, which amount is not considered material.

3. INVESTMENT IN AND ADVANCES TO AFFILIATED AND UNCONSOLIDATED SUBSIDIARY COMPANIES:

Subsidiary	1970	1969
Hidrogas Inc. — shares — at cost	$ 100	$ 100
— advances	989	42,784
	1,089	42,884
Affiliated		
Pet-Chem Manufacturing Limited — shares — at cost	50	50
— advances	275	—
Executive Business Services Ltd. — advances	3,263	3,571
	3,588	3,621
TOTAL	$4,677	$46,505

4. MINERAL CLAIMS:

In 1965, the company issued 750,000 common shares in exchange for certain mineral claims. The shares so issued were held in escrow under the control of the Superintendent of Brokers for the Province of British Columbia. Under the terms of the exchange agreement, the escrowed shares are to be surrendered at the sole discretion of the Superintendent in the event of the company losing or not obtaining a good and marketable title to, or abandoning or discontinuing development of the properties.

On August 5, 1970 the Directors passed a resolution directing the company to give notice to the Superintendent that it was abandoning the mineral claims and to request that the Superintendent order the release for surrender by way of gift to the company for cancellation the number of shares as he deems equitable. To date, 26,000 shares have been surrendered to the company, 72,400 shares have been released to the vendors of the mineral claims; and the balance of 651,600 shares are held under the escrow agreement. As a result of the resolution to abandon these claims, the company has written the investment therein down to the nominal value of $1.

5. GAS, OIL AND ROYALTY INTERESTS:

Details of gas, oil and royalty interests and accumulated depletion are as follows:

Producing properties	1970	1969
Acquisition and completion costs	$22,970	$7,500
Accumulated depletion	9,792	—
	13,178	7,500
Non-producing properties		
Acquisition and completion costs	10,517	1,390
Royalty interest	16,010	—
	$39,705	$8,890

Depletion in the amount of $4,048 for the current year is based on management's estimate of the producing life of the property.

Included in producing properties are completion costs of $16,412 on a producing gas well in which the company holds a 50% interest. The company will not realize any income until the drilling company recovers out of production additional completion costs of $7,967.

6. DEFERRED EXPENSES:

Exploration and administrative costs incurred in prior years amounted to $77,192; of this amount $65,017 relates to abandoned mineral claims and gas and oil properties and have been written off to current operations; the remaining $12,175 has been allocated to Gas, Oil and Royalty Interests.

7. EQUIPMENT:

Details of equipment and related accumulated depreciation at August 31, 1970 are as follows:

	Equipment	Accumulated Depreciation	Rate
Tank cars	$203,392	$8,475	10%
Furniture and fixtures	3,556	1,724	20%
	$206,948	$10,199	

It is the company's practice to provide for depreciation of tank cars under the straight-line method and furniture and fixtures under the declining balance method at the rates shown above. The total amount so provided for the period was $8,798.

8. GAS PLANT AND STORAGE FACILITIES:

During the year the company determined that preliminary engineering costs related to underground storage and gas plant facilities had no application or value in light of current technical developments in this field. Costs of $51,789 to November 30, 1969 and $4,484 to August 31, 1970 have been charged to operations in the current year.

9. CAPITAL STOCK:

Details of issued capital stock are as follows:

	At Par of $1	Discount	
For cash	$ 567,002	$ 423,655	$ 143,347
For mineral claims	750,000	—	750,000
For shares of subsidiary	1,700,000	1,402,500	297,500
	3,017,002	1,826,155	1,190,847
Less shares surrendered and cancelled	26,000	—	26,000
	$2,991,002	$1,826,155	$1,164,847

Of the 3,017,002 shares issued, 651,600 shares relating to mineral claims are held in escrow under the control of the Superintendent of Brokers for the Province of British Columbia (Note 4), and 1,700,000 shares relating to the acquisition of Hidrogas Limited are held in escrow under the control of the Alberta Securities Commission and the Calgary Stock Exchange.

10. REMUNERATION OF DIRECTORS:

Remuneration of Directors who are officers of the company amounted to $18,000 for the year (1969 - $24,000) which amounts are included in Selling, General and Administrative Expenses.

11. LEASE COMMITTMENTS:

The company occupies leased premises in Calgary under a 5 year lease expiring October 1974 at a rental of approximately $8,700 per year.

12. SUBSEQUENT EVENT:

In September 1970, the company entered into a farm-out agreement whereby for a 25% interest in a gas field development, the company is committed to advance approximately $11,000 for drilling costs.

13. EARNINGS PER SHARE:

	1970	1969
Earnings per share before extraordinary items (Notes 4, 6 and 8)	1.4¢	1.0¢
Loss per share — extraordinary items	29.1¢	1.0¢
Loss per share after extraordinary items	27.7¢	—

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